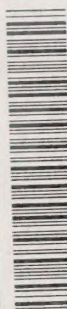


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GEOGRAPHY



DEMOGRAPHICS

The German population will continue to grow steadily into the future. By the year 2000, the population will have increased by 4.3 million over 1990, an increase exceeding 5 percent. This trend is solely based on the immigration factor. The population's share of younger people will remain nearly constant while that of the elderly will grow. The 15-65 age group, however, will shrink.

The number of households will increase, if only because of the growing population. Growth will primarily come from the increasing number of smaller households (single, young couples), whereas larger households will grow faster than the population. In the year 2000, there will be 2.6 million more households than in 1990, an increase of 7.4 percent.

ECONOMIC OVERVIEW

The German economy is the world's third largest, and accounts for somewhat more than one-fourth of the European Union's GDP. Among European countries, Germany is Canada's second largest trading partner.

Germany's broadly diversified economy affords its citizens one of the highest standards of living in the world. The German "social market" economy is organized on free-market principles and provides what some view as the industrialized world's most comprehensive set of unemployment, health and educational insurances and guarantees. As one of the world's foremost trading nations, Germany traditionally has enjoyed substantial trade and current account surpluses, although the financing demands of reunification have driven the current account into the red. A strong currency and continued international confidence in the management of Germany's monetary policy ensure full access to external financing.

Despite some 5 percent appreciation of the trade-weighted value of the DM in the first quarter of 1995, Germany appears poised to record moderate, non-inflationary growth in 1996 and subsequent years.

The German economy has grown substantially since 1994, averaging nearly 2.5 percent per year after having suffered a decline of 1.2 percent in 1993. The main reason behind the German turnaround was export growth, which was stimulated by healthy foreign demand, particularly from recovery in Europe. The slow-down in the latter half of 1995 was because of the DM strength; however, the GDP growth rate was 1.9 percent in 1995 and was expected to be around 3 percent for 1996.

Unemployment will remain high as the jobless rate was expected to hover at the 11-percent mark in 1996. Easing inflation in 1995 gave central bank officials the necessary scope for lowering interest rates in 1995. The inflation rate in 1995 was 1.5 percent.

The official German government forecast and those of private economists are in agreement that

overall economic growth throughout Germany in 1996 will continue to be led by exports and investment, with private consumption taking a more important role.

Despite the German economy's continued optimistic prospects, there is a consensus that Germany has structural problems that need to be addressed over the longer term. Excessive regulation of business, conservative financial services providers, and continued expansion of the country's very generous social security system are said to be disincentives to entrepreneurial activity and labour mobility. The associated increased costs of production and potential drag on productivity and competitiveness are matters of widespread concern. The economic institutes continue to call for deregulation and accelerated privatization of government enterprises, as well as a reduction in the government expenditures as a share of GDP from the current level of just over 50 percent to the pre-unification rate of 46 percent. This would involve fundamental reform of Germany's social security system, including pensions, health insurance, unemployment compensation, and welfare.

Although the private sector began a process of structural change through downsizing, and labour responded by accepting real wage cuts as a means of dealing with the last recession, a repeat of the dramatically reduced unit labour costs achieved in 1994 is not expected for the foreseeable future. Labour demanded and won real wage gains in the latest wage round, a factor that has contributed to those voices raising concerns over German competitiveness.

The process underway in eastern Germany is the quintessence of structural change. Approaching the seventh year of German economic and monetary union (effected in July 1990), the eastern German economy elicits metaphors such as "shock treatment", "hothouse growth", and "forced feeding". The unprecedented privatization of thousands of formerly state-owned enterprises is nearly complete. A massive shift of resources from basic industries to construction and other services is well under way.

Public investment has modernized telecommunications and transportation very rapidly. An array of tax breaks and low-interest loans have attracted investment, much of it that normally would have gone to western Germany. The government has extended the bulk of the incentives through 1997. In January (1997), the Federal government launched a program, Sonderabschreibung für Altbauten (Sonder-AfA), dedicated to improving the state of old buildings in the NL. Purchasing costs of the building can be deducted from taxable income on a linear basis of 2 percent and—if built before 1925—2.5 percent p.a. It is possible to deduct 40 percent of the renovation costs from taxable income in the first year or over 5 years. Once the Sonder-Afa (40 percent of renovation costs incurred) is completely used, any remaining renovation costs can be deducted in equal rates until the 10th year. On the other hand, eastern German wage rates increased in excess of productivity in 1990-93, thereby eroding an important element of competitiveness, greatly raising the incidence of bankruptcy, and contributing directly to unemployment. However, current job creation appears to be catching up with continuing job losses—official unemployment was expected to level off at about 13 percent in 1995-96, while disguised unemployment (forced early retirement, short-term work, retraining programs) would more than likely double that rate.

The government's declared primary objective is to improve supply-side factors that determine Germany's attractiveness as a place to invest and to do business. Included under this rubric are fiscal consolidation, the continuation of reasonable wage demands on the part of labour, and ensuring the restructuring and integration of eastern Germany into the overall German economy. The chosen approach on the latter goal, although criticized by some as an excessive financial burden on the west,

is to support personal incomes and consumption in the east at near western levels through massive transfer payments, while promoting public and private investment. In addition, a reduction of the state's participation in the economy, tax reform and further liberalization of markets, both internally and in terms of access by foreign competitors, are key objectives of the German government economic policy.

There is considerable consensus on these objectives but growing disagreement on the appropriate policies to achieve them. Some outside of government have questioned the appropriateness of strict budgetary constraint in the midst of a budding recovery possibly threatened by a strong DM, and have called for additional monetary easing, and slower budgetary consolidation in the interest of reducing the tax burden more rapidly.

The government, however, perceives financial and political constraints on its ability to promote growth and to implement its ambitious agenda of structural reform. Its plan for 1996 was to reduce the reliance on tax receipts for budgetary consolidation, in favour of increased emphasis on reducing expenditures. In this context, however, it will continue its large transfers to the east, although reduced from earlier levels. It is hoped that these transfers will focus increasingly on manufacturing as opposed to income maintenance in an attempt to increase the industrial base so that the east can reach a level of self-sufficiency more quickly.

For the 1996-2000 period, the average annual growth in real GDP is expected to increase by 2.8 percent. The growth forces for medium-term economic development are based on exports and fixed capital formation, whereas private consumption and public-sector spending will increase at a below-average rate, when compared to the overall economy.

POLITICAL OVERVIEW

Canada and Germany share many foreign policy and international trade objectives. Examples include reforming and strengthening the United Nations and helping the countries of Eastern Europe adjust to the post-Cold War era.

As members of the North Atlantic Treaty Organization (NATO), Canada and Germany are defence partners. These ties were strengthened when Canada based military personnel in Germany. Members of the German armed forces are now trained in Canada.

It is a Canadian priority to strengthen relations with Germany because of the role Germany plays in European integration and in world affairs.

Heads of government, ministers, and officials of both countries meet frequently both bilaterally and through activities in the G-7, the UN, NATO, the Organization for Economic Co-operation and Development, and the Organization for Security and Co-operation in Europe.

TRADE POLICY

Germany is Canada's fourth largest trading partner (after the United States, Japan and the United Kingdom). Canada is Germany's 29th largest trading partner.

Trade figures for 1995 show that Canadian exports to Germany rose by 43 percent to \$3.1 billion from \$2.2 billion in 1994. German exports to Canada increased in the same period from \$4.3 billion in 1994 to \$4.8 billion in 1995.

German investment in Canada in 1995 totalled \$4.96 billion, making Germany our second largest source of European foreign investment (after the United Kingdom). Canadian investment in Germany in 1995 was \$2.36 billion.

Germany is Canada's most important European partner in development and application of new technologies. One example is the new Geomatics industrial park at the former Canadian military base in Lahr, Germany.

HOUSING CONDITIONS

In 1995, Germany had 36.8 million households within its population of 82.5 million inhabitants. In the same year, a total of 113.5 billion ECU (1 ECU = 1.92 DM) was allocated to new housing (75 billion ECU), renovation and housing rehabilitation (38.5 billion ECU).

In 1993, the population of 64 million inhabitants of former West Germany, also known as the Old

Federal States, as well as the 17 million people from former East Germany, or the New Federal States merged into a unified Germany. The West German states have a capable and efficient housing industry that provides new housing and housing rehabilitation products and services to the East German states through various subsidiaries. Consequently, the current German housing market is a mixture inherited from both housing markets.

HOUSING MARKET ACTIVITY, NEED AND DEMAND

Local Technology

The composition of the German housing market is a mixture of products and techniques as a result of the merger of the former Federal German Republic with the former Eastern Democratic German Republic.

In the Old Federal States, approximately 40 percent of Germans own their own home although significant regional variations are found. This is largely attributed to the fact that the average German home costs nine times the average annual income (an average house built with traditional methods may cost from DM 450,000 to 500,000) as compared to its being worth five times the average annual income in Great Britain and three times in the U.S. Home buyers frequently wait up to 40 years to buy their home and therefore attach considerable importance to its being of the highest quality.

In the New Federal States, housing units are much smaller, averaging 28 m² per person as opposed to 34.5 m² in the Old Federal States. While demand is estimated at 470,000 units per year up to the year 2000 and a demand for another 380,000 new units every year between 2000 and 2010, current output is lagging at 25,000 to 30,000 units per year.

Forecasts for the period of 1996-2000 place the housing shortfall of Unified Germany at 2.5 to 3 million units. An estimated 1 million people are housed in temporary or substandard buildings and over 100,000 more are homeless. This shortfall in supply has resulted in smaller living quarters and increased subletting. German interest rates are low and the market for lower-priced housing (up to DM 300,000) is good, particularly in the East German states.

There are few developers in Germany. Turnkey developments, including landscaping, and house-shell coverings are not common practice. Building structures are usually delivered and owners subsequently contract with various

sub-trades to finalize construction. Real estate development, typically, is not a full-time activity because of the numerous delays imposed by the various permits required for housing development at the municipal level. Public consultation is usually extensive and the process contributes to further delay. It is not uncommon to see three years elapse between the actual land purchase and the day the owner moves into the new home.

Increasing pressure has had an impact on construction prices over the past four years. In the private housing construction area, prices were up 1.1 percent in 1995 after 2.1 and 3.6 percent increases in the two preceding years. For three consecutive years, construction prices have risen below the West German states' overall inflation rate. In the East German states, housing construction prices increased by a meagre 1.9 percent last year as compared to 3.9 percent in 1994 and 5.8 percent in 1993.

Wood-frame Housing

German people put great emphasis on the environment. This creates a demand for the healthy living environment that wood-frame housing provides. Although Germans are wary of this type of housing, Canadian suppliers are quite active within the housing market, and the attitude is more receptive. According to Scandinavian exporters, growth prospects for wood-frame prefabricated houses in Germany are good because of the environmental appeal and high energy savings realized. Moreover, the Federal Ministry of Housing officially supports the quality of wood-frame housing.

In the West German states, 7 to 8 percent of housing starts of one and two-family homes are wood-frame houses. The number is expected to increase steadily in the next 5 years to reach about 15 percent, although prices for brick and block houses are expected to drop or stabilize. In the East German states, 24 to 28 percent of housing starts are wood-frame houses.

**Table 1:
Wood-Frame Market Share Evolution in Germany (single and two-family homes)**

Years	Total	Prefabricated	Total	Prefabricated
	West German States	West German States	East German States	East German States
1993	142,123	9,745	28,621	8,206
1994	158,293	11,440	39,138	9,635
1995*	113,684	8,185	40,981	10,327

* As at November 1995
Source: Statistisches Bundesamt

Table 1 shows the distribution of housing starts (total and prefabricated housing) for single and two-family homes in both west and east sections of Germany.

Approximately 80 to 85 percent of the wood-frame housing in Germany is manufactured by a group of approximately 20 German companies. The lumber used originates from the south region of Germany and Austria with some imports from Eastern Europe and Scandinavia.

Log Homes

The potential for log cabins appears to be more limited than for timber-frame housing in general. This type is still generally regarded as low-scale as Germans continue to favour stucco and plaster finishes. However, this is not true for Bavaria (where a four-storey wood home was built), or Baden-Wurttemberg and Hesse where the concept is widely accepted. Moreover, the necessary official approvals are more easily obtained in Southern Germany.

Prefabricated Housing

The prefabricated market is expanding with 85 percent of needs supplied by domestic companies who are members of the Federal Association of German Housing Prefabricators. Both West German and East German states' markets are very different. Prefabrication is more widely accepted in East German states than in other regions. There demand far outstrips domestic supply capability.

Housing Components (windows, doors and floorings)

Windows

Even with continuous growth of the German market for windows, experts in the field expected a 2 percent decrease in 1996 sales, giving way to a total of 25 million units down from 25.5 million units in 1995. In turn, 1995 sales were up by 1.4 percent over 1994. The expected decrease in 1996 was to be limited to West German states which account for 70 percent of the overall German market. As for East German states, sales should see an 8 percent increase, up to a total of 7 million units. Nevertheless, this progression is expected to slow down in the longer term. It should be noted that the German window market is very difficult to penetrate for exporters who do not offer specialty windows such as the insulated PVC type currently marketed by a Canadian-East German states' partnership.

Floorings

Wood floorings account for approximately one-third of the German flooring market, or 30 million m² per year with an average price of DM 125/m². Although plastics currently hold the largest market share, the trend is in favour of wood in view of its environmental appeal. Wood floorings are almost all in strip form, either in solid hardwood or laminate. The preferred hardwoods are oak and beech. While wall-to-wall carpeting remains a popular choice in the U.K., hardwood is used almost everywhere in Germany. As a result, the German market for wood flooring is worth about five times that of the U.K.

Germany imports a great quantity of both solid and laminated parquet panels and Scandinavia has become its main supply source for wood floorings.

The major Scandinavian companies on the German market include:

- TARKETT (German factory), located in Frankenthal (tel.: 0049-6233-811-843), with Swedish headquarters and factory located in Ronneby (tel.: 0046-45-77-1000).
- JUNKERS, whose headquarters are located in Voerftsvej, Denmark (tel.: 0045-536-51895) distributes a product that is considered to be the “Rolls Royce” of hardwood floors with even higher prices than those of German competitors. This company specializes in solid hardwood strip floorings destined to indoor sports arenas. Their marketing edge relies on their product being exempt of chemical additives. They also supply “ecological” oils for ulterior maintenance.

Lumber Wood and Other Commodities

Germany is almost self-sufficient for softwood lumber originating from the southern region of Germany with a few imports from Scandinavia and a few East European countries. The country’s proximity to such important supply sources makes it somewhat difficult for Canadian lumber exporters to penetrate the market any further.

Local Industry, Local Housing Context and Foreign Competition

There are a number of general issues regarding the local industry. The following key conditions delineate the German housing industry:

- thermal regulations are under federal jurisdiction; and
- other building regulations vary from *Länder* (state) to *Länder*.

Five years ago, fire regulations were daunting but these were modified two years ago and are now very similar to North American regulations.

German sound-proofing regulations are onerous but some companies active in the market, such as Canstruct, a German-Canadian joint venture, expect that they will conform with the less demanding European standards in the near future.

German regulations require 42 nails per m² compared to 7 in North America. Companies cope with such a regulation with various approaches.

It is very difficult to get German supervisory engineers, who are important figures in the local industry, to understand North American production methods. For instance, Canstruct took a small group of engineers to visit North American construction sites in order to convince them of the viability of the production methods.

The approval process for housing products is as costly as it is time-consuming. Canadian exporters willing to penetrate the German market will have to work within the following environment: two categories of housing products exist — those which are subject to the German DIN Standards and those with no specific standards but requiring approval from the German Institute for Building Technologies (DIBT).

All local and foreign products, regardless of their origin, need to meet the DIN standards. Local suppliers, with products that comply, market them accordingly. Others, use third party inspectors to witness their DIN compliance to bolster their marketing strategy. The approval process with the DIBT (for products with no DIN standards) may take from 6 months to 3 years and incur costs in the area of \$50,000 to \$300,000.

Many steps are compulsory:

- application or request of the supplier is submitted to the DIBT in Berlin;
- miscellaneous testing is required by the DIBT;
- the supplier must then go to one of the 24 registered private test labs. It may be worthwhile to note that these labs are competing against each other and suppliers may use this as a tool in order to obtain test reports more quickly and at lower costs; and
- test results are sent to the DIBT’s relevant committees (wood, steel, concrete, etc.), which in turn will grant or refuse their approval.

Prefabricated houses also need to be approved in each *Länder* and through the DIBT. Such approvals are rigid and do not allow for any changes in the housing design nor room displays if these modify the structural integrity of the house. It is therefore advisable to bypass these procedures in the case of prefabricated housing and resort to a local engineer who will calculate the structural integrity of the house and certify it with an official

professional stamp (for 1 to 2 percent of the overall cost).

The Hauptverband der Deutschen Bauindustrie (HDB), an industry association located in Bonn, observed that the sustained low prices in the construction sector are a result, at least in part, of the increasing number of low-wage sub-contractors originating from other EU and Eastern European countries who are currently entering the German construction market. This trend has kept wages at current levels as well as housing prices, and the German construction industry had little profits in 1995. Predictably, the insolvency level within the construction industry continued to rise, 46 percent in the West German states.

The German government recently passed legislation aimed at stabilizing the influx of low-wage construction workers from other EU and Eastern European countries. Under the new legislation, all workers employed at construction sites within Germany must be paid according to German wages. Considering the fact that an estimated 200,000 low-wage foreign construction workers were to move into the German market in 1996 alone, success of this legislation should soon be felt on the labour front.

With the rising insolvency level already pointing to a deteriorating profit situation in the construction sector, the outlook for employment is getting worse. A study conducted by the Munich Research Institute, Ifo, for the German Construction Industry Federation (HDB), forecasts a rising West German construction output reaching an approximate DM 189 billion by 2004. To create such output, the country would need an estimated 970,000 industry workers compared to the 1.4 million that were employed in 1994. Ifo conceded that there would nonetheless remain a slight unsatisfied demand for skilled construction workers such as carpenters, a demand which has been increasingly difficult to meet over the recent years due to the frequent shortage of specialized and qualified craftsmen.

Wood-frame Housing

According to Kano, a German-Canadian joint-venture involved in manufacturing timber frame components and turnkey prefabricated housing, German manufacturers of prefabricated

housing (e.g., Kampa) do not constitute direct competition since they generally build more basic products. Some of the leading German manufacturers of wood-frame housing include:

- Kampa Verwaltungs GmbH & Co (Kinding) in Linden and Minden;
- Schwörerhaus GmbH & Co in Angeracht; and
- Okal, Bau, Otto Kreibum GmbH & Co in Salkhemendorf.

There are two trade associations for wood-frame housing manufacturers (both at the same address: 53604-bad Monef, Flutgraben):

- Bundes Gutgemeinschaft (German and foreign members) (tel.: 49-02224-937724); and
- Bundesverband Deutsche Fertigbau (BDF) (German members only) (tel.: 49-02224 93770. This association markets itself as the representatives of manufacturers of "superior quality" wood-frame housing.

Local Housing Activities

Germany has, by far, the largest new housing construction program in all of Europe. This program is twice as large as France's and even larger than the U.K.'s. As it is the case for the German economy in general, analysts from the *Zentralverband des Deutschen Baugewerbe* (ZDB), the *Deutsche Bank* (DB) and Euroconstruct are cautious in terms of assessing the current state of the country's housing industry. Whether or not this sector has been experiencing a temporary setback or has reached the brink of recession, housing construction figures are heading downward at progressively increasing speed.

According to the ZDB in Bonn, private housing construction, the driving force of the commercial boom observed in the preceding years, grew only by 5.7 percent in 1995 following a 13-percent increase in 1994. Industry spokesmen say that residential construction collapsed completely and a marked slowdown of activity for commercial and public construction has been observed. The East and West division is still very much in place, although disappearing.

While all segments of the construction sector have been drawn into this recent economic slowdown,

residential construction seems to have been affected more severely. In the West German states, where residential construction accounts for 57 percent of overall construction output, demand virtually collapsed after several years of steady growth. During the course of 1995, the average number of building permits dropped by 20 percent. Incoming orders were down by 17 percent and the decline is progressing rapidly.

The impact of the economic deterioration of 1995 has not only been felt in the private residential housing industry but also in the apartment building construction area. Recent government fiscal changes were partly to blame for the situation, particularly in the 1994-95 period. In addition, progressive cuts in special funding in support of residential construction in urban areas, coupled with the fact that investors began to see real estate opportunities with a critical eye as the prospects of property and rental prices dwindled, were also contributing factors. The ZDB predicts a 2 percent decline in residential construction for 1996. The rate of growth in the West German states is expected to drop by 4 percent, while in the eastern region, growth of about 5 percent is expected.

In the medium term, increase in demand may occur with the slowly recovering disposable incomes. The DB Research Group forecasts residential construction spending to increase by an average of 2.5 percent annually over the 1997-2000 period. While this would appear to be considerably lower than in the previous years, the end result remains quite substantial given the already high portion (7 percent) of the country's overall GDP that was invested in residential housing construction in 1994. Table 2 shows housing completions forecasts from 1994 to 2000.

Housing Need

New Residential Construction

Euroconstruct predicts that the 4 to 5 percent progression observed in 1995 for construction demand and output would reverse to a decrease of 5 to 6 percent in 1996.

New housing construction industry forecasts will maintain their downward course for 1997 although an increase is expected in the years to follow, considering improvements in the outlook for incomes. The reformed tax concessions for property owners specifically designed to benefit middle-income families (threshold households) should also contribute to stimulate this sector.

The proposed introduction of the comparative rent system in the East German states is expected to have a similar impact. The system promises to improve yield expectations for new housing in view of their close link to rents in existing buildings. Furthermore, increasing rents will encourage many tenants to consider purchasing property should the cost differentials be minimal.

Repair and Maintenance

Over the course of this decade, marked by a boom in new construction activity, housing rehabilitation of the existing constructions in the West German states has grown at a below-average pace and even decreased in 1993. Contractors preferred to focus their staff and equipment on the quickly expanding and more profitable new construction sector. Additionally, even the government programs destined for housing rehabilitation in the form of fiscal incentives, direct subsidies and accelerated bureaucratic procedures, did not succeed in providing new stimulus to the housing rehabilitation sector. Nevertheless, this sector managed slight growth and slow progress was expected to continue in 1996.

Table 2:
Housing Completions Forecasts (in thousands)

Housing	1994	1995	1996	1997	1998	1999	2000
1+2 Family dwellings	213.0	210.0	210.0	205.0	200.0	215.0	225.0
Flats dwellings	285.0	320.0	340.0	315.0	295.0	300.0	325.0
Total dwellings	498.0	530.0	550.0	520.0	495.0	515.0	550.0

Source: Euroconstruct, European Construction to 2000, October 1995.

In the East German states, housing rehabilitation played a major part in the economy during the early years of reunification, since the existing housing stock was in a very poor state. To this day, residential, commercial and public building rehabilitation continues to be supported by extensive government programs, particularly in the case of housing construction for which a DM 60 billion modernization program was allocated. Of this amount, DM 10 billion has been set aside for the rehabilitation of prefabricated concrete buildings which, despite their relatively young age, are in great need of repair. The renovation of these buildings is supported by additional funds from East German Länders in order to curb rental increases which normally occur in the modernization aftermath. The East German states' housing rehabilitation industry is also supported by funds destined for public housing construction, unlike the western states, where funds can be used for both construction and renovation purposes.

In the medium-term, Germany's housing rehabilitation industry will continue to expand. In housing construction, modernization is not only necessary because of normal wear and tear, but also because many post-war houses and large complexes need to be modernized in order to meet new standards. The conversion of rental housing into condominiums also requires housing rehabilitation work. Businesses respond to this emerging market competition with expanded production facilities, new products, improved production processes and marketing procedures that will also lead to extensive construction activity in connection with existing buildings. In the public sector as well, the aging process and changing standards with regard to building functions will require considerable modernization measures. Financial constraints in the public and private sectors will also lead to maximizing the use of existing buildings.

EXPORT OPPORTUNITIES AND STRATEGIES

The German market offers a lot of opportunities to Canadian exporters since Germany heavily imports its commodities. In 1995, Germany bought as much as US\$1.2 billion of sawn coniferous wood (softwood lumber) and US\$420 million of sawn non-coniferous wood (hardwood lumber) from abroad. Builders' joinery US\$700 million, wood particle board US\$483 million, and plywood are also large import markets.

Even if Canadian companies have been successful in these categories to date, considerable potential remains in the areas of prefabricated housing (imports reached US\$512 million in 1995) and electric signalling apparatus (imports reached US\$752 million in 1995).

The wood windows, French windows and frames category (imports reached US\$288 million in 1995) as well as the wood doors and frames category (imports reached US\$226 million in 1995) both offer vast potential in markets currently overlooked by Canadian companies.

Housing Trade Patterns Analysis

Among the Western European countries, Germany is Canada's second largest trading partner, with exports worth up to US\$167 million in 1995 for the categories of products considered, a 25-percent increase over 1992. Germany is the largest

consumer of housing-related products with total imports valued at US\$9.5 billion in 1995 (twice the U.K. value, Canada's largest customer), increasing by 14 percent over 1992. Overall, Canada's market share in Germany remains stable and limited to 2 percent of total housing-related product imports. Germany appears to be a developing market with huge potential for Canadian exporters.

With 78 percent of Canadian exports to Germany in 1995, the following commodities account for the bulk of these Canadian exports:

- sawn coniferous wood US\$54 million;
- non-coniferous wood US\$41 million;
- plywood US\$32 million;
- coniferous wood US\$1.5 million; and
- non-coniferous worked wood US\$2 million.

However, trade patterns of manufactured products are growing. Major manufactured products for 1992-95 are:

- builders' joinery 236 percent (US\$8.2 million);
- electric signalling apparatus 611 percent (US\$5.9 million); and
- prefabricated buildings 34 percent (US\$6.8 million).

Table 3:
Major Imports in Germany and Associated Trade Partners

Products	1995 Imports US\$ Million	Three Main Partners in 1995
Sawn coniferous wood	1,200	Poland, Finland, Sweden
Sawn non-coniferous wood	420	Malaysia, USA, Ghana
Builders' joinery	700	Sweden, Indonesia, Norway
Particle board of wood	483	Austria, Belgium, Switzerland
Plywood (solely wood)	183	USA, Canada, Finland
Prefabricated buildings	512	Czech. Rep., Netherlands, Belgium
Electric signalling apparatus	752	Japan, Taiwan, Malaysia
Wood windows, French windows and frames	288	Denmark, France, Poland
Wood doors and frames	226	Slovenia, Denmark, Belgium

Canada's key positions are:

- plywood, with an 18-percent import market share in 1995 (compared to 7 percent in 1992), which makes Canada one of Germany's sources of plywood;
- sawn non-coniferous wood, with a 10-percent market share in 1995 (up from 5 percent in 1992), whereas the import market share for sawn coniferous wood has been declining from 6 percent in 1992 to 4 percent in 1995, resulting in a 29-percent decrease in value; and
- shingles and shakes, with a 32-percent market share, but limited to US\$0.87 million, a 24 percent decrease compared to 1992 due to a declining demand (imports have decreased by 9 percent over the 1992-95 period).

During the 1992-95 period, among the selected categories of products, the fastest growing and significant trade patterns from Canada to Germany were:

- electric signalling apparatus 611 percent;
- builders' joinery 236 percent;
- sawn non-coniferous wood 82 percent;
- non-coniferous worked wood 800 percent;
- plywood 188 percent; and
- prefabricated buildings 34 percent.

As for Germany's total imports, the fastest growing categories of products over the 1992-95 period were:

- wood windows, French windows and frames 213 percent (US\$288 million);
- electric signalling apparatus 204 percent (US\$752 million); and
- fibreboard 74 percent (US\$107 million).

In future years, Germany will remain the most important housing market for Canadian exporters active in Western Europe, due to the following reasons:

- there is a significant demand for new housing construction and rehabilitation in the short- and medium-term compared to other countries;

- German housing production costs (labour and materials) are exceedingly high;
- Canadians have developed efficient site management techniques that empower them to complete their construction work more quickly than the competition while saving on manpower costs; and
- the current exchange rate is favourable to Canadians.

The German government has recently decided to officially recognize wood-frame housing as a good alternative to traditional concrete and brick housing in terms of quality and price. German experts have concluded that there is no significant difference between traditional construction and wood-frame construction. Consequently, future prospects are good for wood-frame housing which brings such additional advantages as higher energy efficiency levels and compliance with growing environmental concerns. Canadians, as experts in the wood-frame housing techniques used to build energy-efficient housing, should take advantage of this situation. German regulation allows wood-frame structures for constructions as large as four-storeys high (maximum height including basement) without the need for a structural engineer. Therefore wood-frame housing should focus on suburban housing as well as low-rise multi-unit housing although appropriate soundproofing will need to be addressed.

Market analyses also show good opportunities for fully equipped prefabricated housing available at competitive prices. Additional products of interest are in the log home and kitchen cabinet (sold as add-ons to prefabricated houses) categories since those can be financed through mortgages. Also of interest are bathroom equipment, superior wood stairways, parquetry and hardwood floorings, windows and interior decorative doors since no standards have been established on these applications.

However, it is recommended to avoid focussing on fire-retardant doors since fire protection regulations are very complex and difficult to comply with in each municipality, especially when the products originate from foreign countries. Regarding housing products exported from Canada to Germany, exporters should select product categories that have already received

European standards or those likely to receive such standards in the short term.

Foreign Competition

Exports to Germany are dominated by Scandinavia (Denmark, Sweden and Finland) and the Netherlands. Some competition also exists from Eastern Europe.

There are four large export companies in the German market: Hosbyhaus, Myersjöhus (now Nordiska Trähus), Tarkett et Junkers (both Scandinavian). All are very well known as foreign companies on the German wood-frame housing market.

Hosbyhaus

Hosbyhaus has its headquarters and main facilities in Denmark. In Germany, its subsidiary is Hosby International A/S (7130- Juelsminde, tel.: 0045 75693644). Hosbyhaus exports 10 to 29 times more products to Germany than to the U.K., which are shipped in kit form. Their main non-German competitors are other Scandinavian companies, not North American or East European companies. According to the Hosbyhaus Department of Exports, there is little difference in the price of wood-frame as compared to that of regular housing. The north and east German regions are the most active for Hosbyhaus due to the geographical proximity, similarities of products used and attitudes.

Myersjöhus

This company's headquarters are located in Sweden (57485 Vetlanda, tel.: 0046-383 96000). Nordiska Trähus recently took over Myersjöhus a year ago. Exports to Germany, shipped in kit form, are a major portion of business and have increased significantly in the last year. Myersjöhus mainly exports to the north and east German regions, where most of the non-German competition is also Scandinavian. The company believes it has an edge in pricing over that of German competitors, the most important of whom is KAMPA.

Danish companies are currently advertising a 96 m² fully equipped prefabricated house sold for DM 232,000, excluding land services, but including kitchen cabinets and foundation slab. To help and support Danish initiatives on the German

market, the Danish government has provided a specialized trade agent to the construction industry within its Embassy located in Berlin. Denmark also promotes very high quality products.

Canadian Presence in the German Housing Market

Prefabricated Wood-frame Housing

The examples of Canstruct and Kano Bau show that Canada has superior house-building technology to offer. Therefore, results can be achieved with persistence and the necessary resources.

Canstruct GmbH

Canstruct GmbH is a German-Canadian joint venture company involved in the manufacturing and the installation of wood-frame housing. Because of cost and availability considerations, it currently buys its timber from Scandinavian sources, however it is receptive to the following:

- Canadian wood-frame construction know-how;
- Canadian architectural design and project management services; and
- Canadian carpenters.

Canstruct is able to advantageously demonstrate the Canadian production line building method on sites of 30 to 40 prospective units. Two of its current projects include a student village of 51 two-storey homes and a development project of 240 family homes in Berlin. Both developments feature stucco-fronted housing. The company intends to incorporate more decorative wood panelling in future developments. Canstruct's main sales focus is based on a lower price range: DM 2,300/m² against an approximate DM 3,000/m² for conventional methods.

Kano Bau

Kano Bau is a Canadian-German joint venture company based in Berlin. It currently has DM 100 million-worth of housing projects underway in Berlin and the area. This company manufactures shell components for wood-frame housing and supplies wood-frame housing turnkey projects by sub-contracting the work. Present in Germany since 1986, it was operating on a

relatively small scale but has since expanded rapidly subsequent to its move to Berlin after Germany's unification. Kano Bau is able to build housing for much cheaper than conventional methods (DM 300,000 against DM 450,000-500,000) while offering more design flexibility. This company had initially encountered great problems with German building regulations, but the issue has been largely resolved.

Housing Components (windows, doors and floorings)

In Germany, British Columbia manufacturers of timber products focus on high value-added products that mainly compete with Scandinavian exports. The Council of Forest Industries (COFI) covering the German market claims considerable success in promoting Canadian exports for a wide range of Canadian value-added wood products such as softwood windows, doors and door frames, furniture (mainly hardwood), including garden furniture, garden huts and sun houses. According to COFI, wood floorings form a very large and highly competitive market. The Council further observed that companies that invest the effort and show flexibility have been successful, including a reasonable number of smaller firms.

While Eastern Canadian manufacturers were fairly successful in selling some maple, beech and oak timber, they appear to encounter only moderate success at selling value-added products.

The Canadian and German-Canadian companies that are active in the German housing market include:

- Kano Bau GmbH & Co KG (Berlin) (tel.: 030-9-164667);
- Canstruct GmbH, (Bad Homburg) (tel.: 061-72-8-30-71/73);
- Canadiana Homes (Dundas, Ontario) (tel.: 905-659-1622);
- Royal Homes Ltd. (Maple, Ontario);
- JFL-Generalunternehmen für Bauleistung GmbH (Borkheide) (tel.: 03-38 45-4-11-41); and
- Crawford Homes, Canadiana Homes (panelized housing) and Alpa Lumber, Toronto (modular housing made of pre-cut

pieces assembled on-site) are also active exporters on the German market.

Canadian exhibitors at the *BAUTEC 96* and at *Bau-Fachmesse* in Leipzig, the two major housing related exhibitions in Germany, included:

- Scotian Homes (Enfield, Nova Scotia) (tel.: 902-883-2266);
- Nascor Incorporated (Calgary, Alberta) (tel.: 403-243-8919);
- Northgate Trailer Industries (Alberta) (tel.: 403-448-9222);
- Canadiana Homes; and
- Royal Homes.

Potential Canadian exporters to Germany may wish to contact German experts in wood-frame housing construction at the *Deutsches Institut für Bautechnik* (tel.: 030-78730-299).

So far, very few successes have been documented by Canadian engineering companies on the German market. Some Canadian architects, however, have acquired extensive knowledge of the German market.

Canadian Housing Exports — Strengths and Weaknesses

The German market appears to be more difficult to penetrate than the French or British markets. However, considerable potential does exist. This market requires long-term commitment as well as multiple and repeated contacts with German partners and customers.

So far, the main barriers encountered by Canadian wood-frame housing exporters have been:

- consumer conservatism (perception that wood-frame-type constructions are cheap and cannot last for many generations); and
- complex German building regulations which differ from *länder* to *länder*.

The largest housing market in Western Europe, Germany is also the most complex and resistant to change. As a result, entry costs are very high. The major issues faced by Canadian companies in Germany that impact success are the following:

- price;
- similar or superior quality;

- design flexibility;
- lower maintenance costs;
- better thermal properties; and
- an ecological choice for a healthy living environment.

The key challenges to be faced in order to further penetrate the German housing market are:

- the existing supply over-capacity in the housing industry due to a general slowdown in construction activity;
- German traditions and values with regard to housing;
- the competitive environment created between West German states and proximate Eastern European countries within the East German states market; and
- strong lobbying activity from the brick industry.

Strategic Approach

Canadian companies contemplating the German market should have a German partner and develop an appropriate strategy to reflect local appeal. The key element relies in choosing a partner and designing a set of incentives which are sufficiently attractive to ensure stability in partnerships.

According to the Canadian Embassy, Berlin Office, target construction prices should stand

approximately in the range of DM 1,400-1,800 per m² (excluding price of land and services). Canada could take advantage of the present economic situation to promote low-cost housing products. This last suggestion should be studied in connection with any potential competition originating from Scandinavian companies.

Furthermore, housing industry experts suggest container shipment from Canada for prefabricated wood housing structures (wood-frames, panels — e.g., house skeletons) and partnerships with local architects and contractors. The latter groups would be in charge of designing and providing the appropriate cladding (red roof tiles, slates tiles, and so on) with products and styles adapted to local appeal. Using this approach, the wood structure remains unseen by the potential home buyers.

According to COFI, Canadian firms would benefit from study tours in Germany that would serve to establish the necessary contacts while assessing the market situation on their own. Canadian companies need to invest the effort and show flexibility. Their participation in housing trade fairs is crucial. The Bau International Trade Fair is one of the most important of them all in connection with construction material, building systems and housing rehabilitation. The event is a biennial activity held in Messegelände (Messe-München GmbH, München; tel.: 089/51070).

Table 4:
National Trade Statistics

Germany		Imports from Canada					Total imports			Canada's import market share	
SITC	Products	1992	1993	1994	1995	1995/1992	1992	1995	1995/1992	1992	1995
2482	Wood, coniferous, sawn	76,095	71,561	76,928	54,046	-29%	1,225,708	1,241,541	1%	6%	4%
2483	Wood, coniferous, worked, shaped	1,302	1004	1,761	1,500	15%	111,528	105,578	-5%	1%	1%
2484	Wood, non-coniferous, sawn	22,825	29,653	38,889	41,588	82%	442,834	420,142	-5%	5%	10%
2485	Wood, non-coniferous, worked, shaped	237	587	981	2,142	804%	75,779	70,956	-6%	0%	3%
27313	Granite, sandstone etc.	2	31	35	263	13050%	85,201	68,886	-19%	0%	0%
63411	Coniferous, veneer, etc.	322	57	1	225	-30%	41,582	28,799	-31%	1%	1%
63412	Non-conifer, veneer, etc.	9,349	8,368	8,720	9,049	-3%	268,638	333,269	24%	3%	3%
63422	Particle board, wood etc.	151	87	25	296	96%	411,795	483,874	18%	0%	0%
63431	Plywood, outr.trop non-coniferous	53	48		135	155%	240,037	363,567	51%	0%	0%
63439	Plywood, solely wood, other	11,198	14,760	25,149	32,198	188%	155,572	182,993	18%	7%	18%
63441	Other plywood outr.trop, non-coniferous	11	2	1	3	-73%	87,905	56,079	-36%	0%	0%
63449	Plywood, veneer panel	247	70	166	122	-51%	74,524	49,837	-33%	0%	0%
63451	Fibreboard, dens.0.8g/cm ³ +	59	7	23	25	-58%	61,495	107,274	74%	0%	0%
63452	Fibreboard, dens.0.5-.8g/cm ³				23		29,377	38,227	30%	0%	0%
63453	Fibreboard, dens.35-.5g/cm ³						583	3,967	580%	0%	0%
63459	Fibreboard	349	206	255		-27%	23,608	29,376	24%	1%	0%
63531	Windows, window frames	4	9	18	246	6050%	92,401	288,914	213%	0%	0%
63532	Doors, frames, thresholds	10	70	103	228	2180%	184,114	226,121	23%	0%	0%
63533	Shingles and shakes	1,142	1,285	1,058	869	-24%	2,945	2,679	-9%	39%	32%
63539	Other builders joinery etc.	2,443	4,069	5,276	8,197	236%	606,990	700,511	15%	0%	1%
63549	Wood ornaments etc.	14	11	39	36	157%	128,332	114,416	-11%	0%	0%
66241	Ceramic building bricks, etc.						182,606	191,617	5%	0%	0%
66332	Building blocks, bricks, etc.		2		1		107,544	129,979	21%	0%	0%
66333	Prefabricated building components		1				106,233	88,175	-17%	0%	0%
66495	Glass fibres, articles	282	360	280	649	130%	184,385	224,014	21%	0%	0%
69113	Doors, windows, frames etc.	1	113	37	83	8200%	113,075	113,916	1%	0%	0%
69121	Aluminum doors, windows, frame		230	467	727	216%	115,579	84,978	-26%	0%	1%
69751	Sanitary ware, irr.st	295	706	542	581	97%	61,246	65,311	7%	0%	1%
74151	Wall type air conditioner	1	42		1		16,511	16,993	3%	0%	0%
74155	Other air conditioning mechanic	185	38	175	158	-15%	221,800	268,879	21%	0%	0%
74341	Table, roof fans <125w etc.	7	4	5	3	-57%	48,949	91,418	87%	0%	0%
77573	Other domestic electric mechanic appliances			2			95,604	111,206	16%	0%	0%
77884	Electric signalling apparatus	828	1866	4,268	5,885	611%	247,343	752,653	204%	0%	1%
81100	Prefabricated buildings	5,090	5,892	6,042	6,832	34%	550,019	512,213	-7%	1%	1%
81211	Radiators, parts thereof	2	1				638,573	536,041	-16%	0%	0%
81215	Air heater, distributor, part	193	285	115	25	-87%	52,972	34,042	-36%	0%	0%
81229	Plumbing fixtures			12	41		215,496	222,138	3%	0%	0%
82153	Kitchen furniture, wood	4	14	2	133	3225%	81,879	80,131	-2%	0%	0%
87461	Thermostats	96	202	68	72	-25%	198,067	167,625	-15%	0%	0%
89321	Plastic sanitary ware	227	112	315	453	100%	240,848	259,912	8%	0%	0%
89329	Other plastic builders' ware	90	87	99	114	27%	338,579	503,200	49%	0%	0%
89331	Plastic, floor, coverage, roll, tile	18	283	19	45	150%	203,889	176,179	-14%	0%	0%
Total		133132	142123	171876	166994	25%	8372145	9547626	14%	2%	2%

BUSINESS ENVIRONMENT

Business Travel

Neither Germany's legal system nor its fully developed infrastructure present any obstacles for travelling to the country. Cars are still the most popular means of transport and Germany's famous highway system is extensive. The condition of roads in Eastern German states may still not reach Western German states' standards, but they are no real barrier to travelling.

Geographic distances are relatively short, when compared to Canada, but as Germany is much more densely populated than its European neighbours, it may take a little longer to travel the same distance in Germany than it may take in France or Scandinavia. The industrial and commercial centres in the Rhine-Main (Frankfurt) and Rhine-Ruhr areas are densely populated and heavily industrialized, and business travellers are well advised to plan on timely departures to reach their destination in time.

There is sufficient hotel space in most major cities, unless there happens to be a major trade fair or a similar event in a particular city. Business class amenities and services can be found in all major cities, including those in the eastern states.

Marketing Products and Services

Canadian companies intending to export to Germany must take into account German demography. To a far greater degree than its European neighbours, Germany's population and industry are decentralized and evenly distributed. Major cities and businesses dot the countryside in a landscape that features no single business centre.

A Canadian supplier seeking sales in Germany must be careful to ensure that its distributor, or its own dealerships, have a country-wide capability. Too often foreign companies seem to seek to cover Europe from a single European base, or even through periodic visits.

The German commercial customer expects to be able to pick up the telephone, talk to the dealer, and have replacement parts or service work immediately available. Canadian exporters should

avoid appointing distributors with impossibly large geographic areas, without firm commitments regarding parts inventories or service capabilities, and without agreements on dealer mark-ups.

Success in the German market, as elsewhere around the world, requires long-term commitment to market development and sales back-up, especially if Canadian companies are to overcome their natural geographic handicap with respect to their European competitors.

No business visitor or company wishing to export to Germany can fail to note that trade fairs play a crucial role in marketing in this country, a role perhaps unique in the world. This is not too surprising when one considers that the trade fair movement was born in Germany in the Middle Ages and that — even today — a major portion of the truly world-class vertical fairs take place within Germany's borders, attracting buyers from around the world.

Every year, one or more major trade fairs will be staged in Germany for almost any product or service Canadians have to sell. Trade fairs thrive in Germany because they are occasions at which business is actively done, rather than serving simply as public relations venues. Canadian exhibitors in German fairs should bring their order books and be prepared to sell.

While foreign exhibitors and even visitors can often conclude transactions, all participants can use German fairs to conduct market research, see what their worldwide competition is doing, and test pricing strategies. The German fairs should not be thought of as strictly venues for doing business in Germany. The major shows attract buyers from around the world, allowing Canadian exhibitors to do business here with buyers from Europe, Asia, Africa, and Latin America.

There is a general consensus that Germany's extensive trade fairs are the most effective vehicle for introducing new products or technologies. A recent poll by a German market research firm showed that decision-makers in Germany value trade fairs as by far the most important medium on which they base their purchasing decisions. The

large number of foreign visitors to German shows often leads to sales to non-German customers.

Besides exhibiting at a German trade fair, in most cases advertising is considered a suitable promotion method. Regulation of advertising in Germany is a mix between judicial rules and voluntary guidelines developed by the major industry associations. Legal rules were established at the beginning of the 20th century by the "Law Against Unfair Competition". This law continues to be valid today, although it has been modified over time. In essence, this law allows competitors to bring suit if advertising "violates good manners".

Many advertising practices that are common in North America, such as offering premiums, would not be allowed in Germany. Any planned advertising campaigns should be thoroughly discussed with a potential business partner or an advertising agency in Germany. Following is the address of the German association of advertising agencies:

Gesamtverband Werbeagenturen e.V.
(German Association of Advertising Agencies)
Friedensstr. 11
60311 Frankfurt a.M. 1
Tel.: (49-69) 235096
Fax: (49-69) 236883

There are numerous technical or specialized periodicals that deal with all aspects of technology and doing business in Germany. In addition, Germany has a well-developed array of newspapers and magazines, which offer the opportunity to gather information and advertise products and services.

For nearly all facets of doing business, there appears to be an industry or trade association that is active in a particular field and which can often serve as a suitable point of contact when trying to establish a partnership.

In any case, Canadian companies are advised to research the market and the potential of their products properly before making a business decision. Not all products can be easily sold and, even in a high-priced country such as Germany, it is important to attach the right price tag to a product.

Selling to German government entities is not always an easy process. As a broad statement, German government procurement is non-discriminatory and generally appears to comply with the GATT Agreement on Government Procurement (the Procurement Code) and the European Community's procurement directives. That said, it is undeniably difficult to compete head-to-head with major German or other EU suppliers with long-term ties to German government purchasing entities.

Regulatory Issues

Germany's regulations and bureaucratic procedures can prove a baffling maze, blunting the enthusiasm of Canadian exporters. Safety standards, not normally discriminatory but sometimes zealously applied, complicate access to the market for many Canadian products. Products frequently get into difficulty with German standards due to their complexity. Canadian suppliers are urged to do their homework thoroughly and make sure they know precisely which standards apply to their product, and that they obtain timely testing and certification where required. This is doubly important because, to the extent EU-wide standards are developed, there is a high probability that the existing German standard will form the basis for the eventual European standard.

One of the difficulties that Canadian firms can encounter when exporting to Germany is the need to comply with product standards. The European Union's (EU) attempts to harmonize the various product safety requirements of its member states have complicated the issue. The EU harmonization of safety requirements and related standards is being implemented for industrial products through EU directives. During the transition period, national requirements must be met. (After the transition period the European-wide "CE" mark supersedes all other compliance certificates, provided the products in question are covered by an EU directive.)

German buyers, however, may require additional performance or quality marks, that are not necessarily legally required, but greatly enhance a product's chances to be marketed. Both EU requirements and the standards for a German quality or performance mark will, in many cases,

require a product to be modified. Even if the product does not require modification, it may require testing and certification before it can be marketed. Important marks are the “geprüfte Sicherheit” (GS) mark for mechanical products, and the “Verband Deutscher Elektrotechniker” (VDE) mark for electrical components. It should be emphasized that neither the “GS” license nor the “VDE” license are mandatory for products sold in Germany. The only exception is for products for use in certain work place applications, where either of these marks are required to meet insurance eligibility requirements.

The German organization that compiles the standards laying down the requirements for a “GS” mark is the “Deutscher Industrie Normenausschuss — DIN” (German Standards Institute). The organization responsible for testing is the “Technischer Ueberwachungsverein e.V. — TUV”, (Technical Inspection Association).

Although the “VDE” license deals with electrical products, instead of mechanical products, the same process of certification can be followed. A company can obtain the “VDE” literature from the VDE publisher, VDE Verlag, GmbH, or from the VDE association directly.

The TUV tests for both the “VDE” license and the “GS” license. The process for “VDE” certification is the same as that of the “GS” mark. TUVs are private companies set up by various German states to inspect and test products for compliance with German safety standards.

The effect of EU harmonization on the “GS” and “VDE” mark is difficult to analyze. It is estimated that about 75 percent of all foreign products sold in the EU must have the “CE” mark once all directives have been passed and all transition periods have expired. Where EU directives are in place the “CE” mark is mandatory by law for products that are covered by the appropriate directive; the mark allows the product to be marketed in all the EU member states. National certificates such as the “GS” and the “VDE” marks, may not be legally required, but enhance marketing chances.

Who has the authority to actually affix the “CE” mark? For many products, the mark may be

affixed by the manufacturer, based on its own testing to verify that the product meets EU requirements. However, EU legislation may require that an independent third party be involved in product assessment.

Who is qualified to be this third party? The EU establishes so-called “notified bodies”, i.e., testing or certification agencies. The majority of the TUVs have already been approved — they will play an important role as notified bodies.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).

Current Market Conditions

The German economy was slow to recover from the mild recession of late 1995 through early 1996. As a result, economic growth of just 0.7 percent was expected in 1996 with growth of 1.9 percent forecast for 1997. The anticipated recovery depends greatly on the success of the current administration’s supply-side reforms, particularly successful reformation of taxes and the labour market.

Consumer spending growth has slowed in the face of higher unemployment. Employment levels are some 800,000 below previous recessionary levels and the unemployment rate remains entrenched near the 10 percent level. Furthermore wages and salaries increased in 1996 at one-half the rate seen in 1995. All of this adds up to stagnating domestic demand exacerbated by the government’s fiscal austerity measures aimed at reducing the social benefits that in the past have carried consumers through period of difficulty.

Both the government deficit and accumulated debt remain above Maastricht target levels. Slower-than-expected growth has curtailed tax revenues and higher unemployment has driven up expenditures for the government. Forecasts projected a revenue shortfall of close to DM22

billion in 1996, leaving an estimated deficit for the year of DM140 billion or close to 4 percent of GDP. This is well above the 3 percent criteria set out in Maastricht. Consequently, the 1997 budget is likely to contain a number of measures that will sacrifice growth in favour of raising revenues to meet the required fiscal benchmark figures.

Business investment has declined in the face of low capacity utilization and weak industrial production. Despite a cut in the key discount rate by the Bundesbank, overall investment activity was expected to decline by 2 percent in 1996. Residential investment was expected to be even weaker with a 4 percent decline expected. Capacity utilization remains 2 percentage points below its most recent 5-year average suggesting that there is sufficient productive capability to meet current demand.

Canadian exports to Germany increased by just over 7 percent through the first half of 1996. This was well above the 2 percent increase seen for exports to the European Union as a whole. For Canadian exporters the strong price growth seen in key forestry product exports in 1995 have been reversed, particularly in pulp markets. However, continued appreciation of the D-mark that began in 1995 will help Canadian export competitiveness over the near term.

Credit Quality Trends

Bankruptcies rose in response to the economic recession that happened in late 1995 through early 1996. The Federal Statistical Office reported that total insolvencies were up 16 percent through the first six months of 1996. The total for the year was expected to near the 25,000 mark, making 1996 the fourth consecutive year of record levels of insolvency. Small businesses are the hardest hit

particularly those in manufacturing, construction, and retail sectors. With continued weakness in domestic demand and the shift on the part of industry towards lower cost Eastern European suppliers, it is not surprising that these sectors are expected to remain in the most distress. Overall, close to 400,000 jobs are expected to be lost as businesses continue to try and get a handle on costs and improve competitiveness. Businesses in the former East Germany still show the highest failure rates.

Moderate wage settlements have helped to reduce unit labour costs and boost productivity. However this is a mixed blessing for German business because low wage growth translates directly into weak domestic demand for products. With the state's consumption set to decline in both 1996 and 1997, the export market is one of growth for German business. In addition, employers' attempts to reduce marginal wage costs even further is bound to provoke substantial union opposition. Indeed the largest trade union demonstration since the Second World War took place in June 1996, and while the target was the government's reforms, it seems clear that worker unrest is on the increase. On a more positive note, business has little to worry about in either inflation or interest rates. Inflation is as benign as it has every been while the Bundesbank seems willing to lower rates in hopes of keeping alive what little spark the German economy has and broadening the base of the recovery.

Collection Experience

The overall collection experience in Germany is good. Open account trading terms are the norm. In regards to credit and financial issues, caution is advised when establishing creditworthiness on former East German companies.

CONTACTS

Canada Mortgage and Housing Corporation

Housing Export Centre

700 Montreal Road
Ottawa, Ontario K1A 0P7

Tel.: 1-800-465-6212 or
(613) 748-2000
Fax: (613) 748-2302

Canadian Government Departments and Services

Department of Foreign Affairs and
International Trade (DFAIT)

InfoCentre
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2

Tel.: 1-800-267-8376 or
(613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board:
Tel.: 1-800-628-1581 or
(613) 944-1581

Europe Trade Division
Central Europe (REC)
125 Sussex Drive
Ottawa, ON K1A 0G2

Tel.: (613) 996-3774
Fax: (613) 995-8756

Canadian Embassy in Germany

Friedrich-Wilhelm-Strasse 18
53113 Bonn, Germany

Tel.: (011-49-228) 968-0
Fax: (011-49-228) 968-3900

Office of the Canadian Embassy

Internationales Handelszentrum
Friedrichstrasse 95, 23rd Floor
10117 Berlin, Germany

Tel.: (011-49-30) 261-1161
Fax: (011-49-30) 262-9206

Consulate of Canada

Prinz-Georg-Str. 126
40479 Dusseldorf, Germany

Tel.: (011-49-211) 17 21 70
Fax: (011-49-211) 35 91 65

ABC-Strasse 45
20534 Hamburg, Germany

Tel.: (011-49-040) 35556-290
Fax: (011-49-040) 35556-294

Tal 29
80331 Munich, Germany

Tel.: (011-49-89) 29065-0
Fax: (011-49-89) 29065-199

International Trade Centres

Newfoundland

International Trade Centre
P.O. Box 8950
Atlantic Place
215 Water Street
Suite 504
St. John's, NF A1B 3R9

Tel.: (709) 772-5511
Fax: (709) 772-5093

Prince Edward Island

International Trade Centre
P.O. Box 1115
Confederation Court Mall
134 Kent Street
Suite 400
Charlottetown, PE C1A 7M8

Tel.: (902) 566-7443
Fax: (902) 566-7450

Nova Scotia

International Trade Centre
P.O. Box 940, Station M
1801 Hollis Street
Halifax, NS B3J 2V9

Tel.: (902) 426-7540
Fax: (902) 426-5218

New Brunswick

International Trade Centre
1045 Main Street
Unit 103
Moncton, NB E1C 1H1

Tel.: (506) 851-6452
Fax: (506) 851-6429

Quebec

International Trade Centre
5 Place Ville-Marie
Seventh Floor
Montreal, PQ H3B 2G2

Tel.: (514) 283-6328
Fax: (514) 283-8794

International Trade Centres (cont'd)

Ontario	International Trade Centre Dominion Public Building 1 Front St. West Fourth Floor Toronto, ON M5J 1A4	Tel.: (416) 973-5053 Fax: (416) 973-8161
Manitoba	International Trade Centre P.O. Box 981 330 Portage Avenue 8th Floor Winnipeg, MB R3G 2V2	Tel.: (204) 983-5851 Fax: (204) 983-3182
Saskatchewan	International Trade Centre The S.J. Cohen Building 119-4th Avenue South Suite 401 Saskatoon, SK S7K 5X2	Tel.: (306) 975-5315 Fax: (306) 975-5334
Alberta <i>* Edmonton office is also responsible for Northwest Territories</i>	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3 510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 495-2944 Fax: (403) 495-4507 Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia <i>*Vancouver office is also responsible for the Yukon</i>	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

Export Development Corporation (EDC)

Ottawa	151 O'Connor Street Ottawa, ON K1A 1K3	Tel.: (613) 598-2500 Fax: (613) 237-2690
Vancouver	One Bentall Centre 505 Burrard Street Suite 1030 Vancouver, BC V7X 1M5	Tel.: (604) 666-6234 Fax: (604) 666-7550
Calgary	510-5th Street S.W. Suite 1030 Calgary, AB T2P 3S2	Tel.: (403) 292-6898 Fax: (403) 292-6902
Winnipeg <i>*office also serves Saskatchewan</i>	330 Portage Avenue Eighth Floor Winnipeg, MB R3C 0C4	Tel.: (204) 983-5114 Fax: (204) 983-2187
Toronto	National Bank Building 150 York Street Suite 810 P.O. Box 810 Toronto, ON M5H 3S5	Tel.: (416) 973-6211 Fax: (416) 862-1267
London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

German Government Offices in Canada

Embassy of Germany	275 Slater Street 14th Floor Ottawa, ON K1P 5H9	Tel.: (613) 232-1101 Fax: (613) 594-9330
Consul General of Germany	1220 ManuLife Place 10180 - 101 Street Edmonton, AB T2P 3J4	Tel.: (403) 422-6175 Fax: (403) 425-9768
	3455, rue de la Montagne Montreal, PQ H3G 2A3	Tel.: (514) 286-1820 Fax: (514) 286-0175
	77 Admiral Road Toronto, ON M5R 2L4	Tel.: (416) 925-2813 Fax: (416) 925-2818
	World Trade Centre 704 - 999 Canada Place Vancouver, BC V6C 3E1	Tel.: (604) 684-8377 Fax: (604) 684-8334

Multilateral Organizations

World Bank	Washington, DC 20433 U.S.A.	Tel: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, DC 20001	Tel: (202) 682-7719 Fax: (202) 682-7726

Business and Professional Organizations in Canada

Canadian German Chamber of Industry & Commerce	480 University Avenue Suite 1410 Toronto, ON M5G 1V2	Tel.: (416) 589-3355 Fax: (416) 598-1840
	1330 Scotia Place 10060 Jasper Avenue Edmonton, AB T5J 3R8	Tel.: (403) 420-6611 Fax: (403) 420-6612
	1010 Sherbrooke St. West Montreal, PQ H3A 2R7	Tel.: (514) 844-3051 Tel.: (514) 844-1473
Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, ON K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218

Major German Banks in Canada

Deutsche Bank Canada	P.O. Box 196, Suite 1200 222 Bay Street Toronto, ON M5K 1H6	Tel.: (416) 369-8800 Fax: (416) 367-3290
	P.O. Box 430, Suite 1700 2 First Canadian Place Toronto, ON M5X 1E3	Tel.: (416) 369-8300 Fax: (416) 369-8362

Canadian Banks with European Regional Offices

Bank of Montreal	D-6000 Frankfurt am, Main 17 Ulmenstrasse 37-39 Frankfurt, Germany 710104	
Canadian Imperial Bank of Commerce	European Operations Office Cottons Centre Cottons Lane London, England SE1 2QL	Tel.: (011-441-71) 234-6000
National Bank of Canada	Europe Regional Office Princes House 95 Gresham Street London, England EC2V 7LU	
Royal Bank of Canada AG	P.O. Box 71 07 14 Lyonner Strasse 15 60497 Frankfurt am Main, Germany	

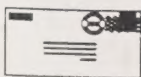
Canadian Banks with European Regional Offices (cont'd)

The Toronto-Dominion Bank	Triton Court 14/18 Finsbury Square London, England EC2A 1DB
Hongkong Bank of Canada	10 Lower Thames Street P.O. Box 506 London, England EC3R 6AE

Business Associations

Bundes Gutegemeinschaft (German and foreign members) 53604-bad Monef, Flutgraben	Tel.: 49-02224 937724
Bundesverband Deutsche Fertigbau (BDF) (German members only) 53604-bad Monef, Flutgraben This association markets itself as the representatives of manufacturers of "superior quality" wood-frame housing.	Tel.: 49-02224 93770
Gesamtverband Werbeagenturen e.V. (German Association of Advertising Agencies) Friedensstr. 11 60311 Frankfurt a.M. 1	Tel.: (49-69) 235096 Fax: (49-69) 236883

HOUSING EXPORT OPPORTUNITIES SERIES ORDER FORM



CMHC
P.O. Box 35005
Stn BRM B
Toronto, ON
M7Y 6E5

Please Print



1-800-668-2642
Outside Canada call
1-613-748-2003

Charge to VISA, American Express or MasterCard.

To avoid double billing, please do not send confirmation.



FAX TO
1-800-245-9274
Outside Canada
1-613-748-2016

VISA, American Express, and MasterCard.

To avoid double billing, please do not send confirmation. A fax will be treated as an original order.

METHOD OF PAYMENT

<input type="checkbox"/>	Please charge my
<input type="checkbox"/>	VISA <input type="checkbox"/> American Express <input type="checkbox"/> MasterCard <input type="checkbox"/>
Card Number	
Expiry Date	
Signature	
<input type="checkbox"/>	Payment enclosed \$ _____
Please make cheque or money order payable to CMHC	

Name		
Company or Organization	Position Title	
Address		
City	Province/State/Country	Postal/Zip Code
Telephone Number ()	Fax Number ()	

To Complete See Example on Reverse Side

ORDER NUMBER	REPORT TITLE	1	2	3	4	5
	Please be sure the order number and report title match the listing	QTY	ITEM AMOUNT \$	TOTAL \$ AMOUNT 1 x 2	SHIPPING POINTS	TOTAL SHIPPING POINTS 1 x 4
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	
					3	

TAX TABLE

7% GST applicable to all items. PST/HST/GST applicable to shipping. for PEI and Québec, PST is calculated on shipping plus GST.

U.S. and International orders, please pay subtotal C in U.S. funds.

Province	GST	PST	HST
Alberta	7% of C	—	—
B.C., Manitoba, & Sask.	7% of C	7% of B	—
Ontario	7% of C	8% of B	—
N.B., N.S., NF	7% of A	—	15% of B
Québec	7% of C	6.5% of B + GST	—
P.E.I.	7% of C	10% of B + GST	—

GST Registration # 100756428

Subtotal Column 3	A
ADD Shipping & Handling Regular Mail <input type="checkbox"/> Courier <input type="checkbox"/>	B
Subtotal (Add A + B)	C
Appropriate Taxes (refer to table at left)	D
Total (Add C + D)	E

Subtotal Column 5

Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.

SEE
EXAMPLE
ON REVERSE

Shipping and Handling Charges

Points	Canada Regular Rates	Canada Courier Rates	U.S. Regular Air Rates	U.S. Courier Rates	International Regular Air Rates	International Courier Rates	Europe Courier Rates
1	2.55	5.00	5.00	11.00	7.00	24.00	19.00
2	3.65	8.00	6.50	14.00	9.00	30.00	25.00
3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
181 to 200	10.98	35.60	69.38	176.75	250.29	658.75	269.75
201 to 220	11.48	40.45	75.05	190.75	N/A	718.75	289.75
221 to 240	11.99	43.30	80.72	204.75	N/A	778.75	309.75
241 to 260	12.49	46.15	86.49	218.75	N/A	838.75	329.75
261 to 280	13.00	49.00	92.21	232.75	N/A	901.75	349.75
281 to 300	13.50	51.85	97.88	246.75	N/A	958.75	369.75
Estimated Delivery times	2-3 weeks	5-10 days	2-3 weeks	5-10 days	4-8 weeks	12 days	12 days

Prices Subject to Change

CMHC Return Policy

We will replace damaged materials and correct shipping errors if we are notified within thirty days after you receive your shipment. If an item is not defective or not mistakenly shipped, then it must be returned by you at your cost within thirty days of receipt. It must arrive here in resaleable condition for you to receive credit.

International Note: Most international return shipments arrive damaged. If you received damaged items, contact CMHC at (613) 748-2969. Please do NOT return the damaged items unless we ask.

Example: To complete order form and determine shipping and handling charges

ORDER NUMBER	REPORT TITLE <small>Please be sure the order number and report title match the listing</small>	1 QTY	2 ITEM AMOUNT \$	3 TOTAL AMOUNT <small>1 x 2</small>	4 SHIPPING POINTS	5 TOTAL SHIPPING POINTS <small>1 x 4</small>
NHA 8003	Brazil	1	35.-	35.-	3	3
NHA 8033	South Korea	2	35.-	70.-	3	6
					3	
					3	

<p style="text-align: center;">TAX TABLE</p> <p>7% GST applicable to all items. PST/HST/GST applicable to shipping. for PEI and Québec, PST is calculated on shipping plus GST.</p> <p>U.S. and International orders, please pay subtotal C in U.S. funds.</p> <table style="width: 100%;"> <tr> <th>Province</th> <th>GST</th> <th>PST</th> <th>HST</th> </tr> <tr> <td>Alberta</td> <td>7% of C</td> <td>-</td> <td>-</td> </tr> <tr> <td>B.C., Manitoba, & Sask.</td> <td>7% of C</td> <td>7% of B</td> <td>-</td> </tr> <tr> <td>Ontario</td> <td>7% of C</td> <td>8% of B</td> <td>-</td> </tr> <tr> <td>N.B., N.S., NF</td> <td>7% of A</td> <td>-</td> <td>15% of B</td> </tr> <tr> <td>Québec</td> <td>7% of C</td> <td>6.5% of B + GST</td> <td>-</td> </tr> <tr> <td>P.E.I.</td> <td>7% of C</td> <td>10% of B + GST</td> <td>-</td> </tr> </table> <p><small>GST Registration # 100756428</small></p>	Province	GST	PST	HST	Alberta	7% of C	-	-	B.C., Manitoba, & Sask.	7% of C	7% of B	-	Ontario	7% of C	8% of B	-	N.B., N.S., NF	7% of A	-	15% of B	Québec	7% of C	6.5% of B + GST	-	P.E.I.	7% of C	10% of B + GST	-	<p>Subtotal Column 3 A 105.-</p> <p>ADD Shipping & Handling Regular Mail <input checked="" type="checkbox"/> Courier <input type="checkbox"/> B 6.18</p> <p>Subtotal (Add A + B) C 111.18</p> <p>Appropriate Taxes (refer to table at left) D 7.78</p> <p>Total (Add C + D) E 118.96</p>	<p>Subtotal Column 5 9</p> <p style="text-align: right; font-size: small;">Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.</p>
	Province	GST	PST	HST																										
	Alberta	7% of C	-	-																										
	B.C., Manitoba, & Sask.	7% of C	7% of B	-																										
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Québec	7% of C	6.5% of B + GST	-																											
P.E.I.	7% of C	10% of B + GST	-																											

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